

Direct Testimony

Petitioners 1

of

Michael T. Skrivan

Date 1-25-01 Reporter CB

on behalf of
Gallatin River Communications L.L.C.

(Docket No. 01-0037)

Q. Please state your name and business address.

A. My name is Michael T. Skrivan, and my business address is 103 South Fifth Street, P. O. Box 430, Mebane, North Carolina 27302.

Q. Are you an officer of the Petitioner, Gallatin River Communications L.L.C.?

A. Yes, I am. I am Vice President-Revenues of Gallatin River Communications L.L.C.

Gallatin River Communications L.L.C. is one of a family of companies that is ultimately owned and controlled by Madison River Telephone Company, L.L.C.

Q. For the record, would you provide a brief description of your background and experience.

A. Yes, I would be glad to. In addition to the position I hold with Gallatin River Communications L.L.C., I am Managing Director-Revenues for Madison River Communications L.L.C. I am a Certified Public Accountant and Certified Management Accountant and have 22 years of experience in the telecommunications industry. Prior to joining Madison River in June, 1999, I was a founding member in the consulting firm of Harris, Skrivan & Associates, LLC, which provides regulatory and financial services to local exchange carriers. During the years 1983-1992, I was employed by Illinois

Consolidated Telephone Company and held positions in Regulatory, Strategic Planning, Marketing and Customer Service. While I was employed by Illinois Consolidated Telephone Company, I presented testimony before the Illinois Commerce Commission on topics including access charge reform, the Primary Toll Carrier Plan and inter-company agreements. I have also testified before state regulatory Commissions in the states of Wyoming, Indiana, Oklahoma, South Carolina and Georgia.

I began my career with Ernst & Young's Telecommunications Consulting Practice, providing cost of service studies to independent telephone companies throughout the United States.

- Q. Please provide a description of the relationship between the companies you will be referencing in your testimony.
- A. The Petitioner, Gallatin River Communications L.L.C., provides telecommunications services, including local exchange telecommunications services, as an incumbent local exchange carrier in Illinois subject to this Commission's jurisdiction and regulation. Gallatin River Communications L.L.C. provides service in 24 exchanges and serves approximately 85,965 access lines. Gallatin River Communications L.L.C.'s acquisition of these exchanges and access lines and all assets, including both real and personal property, used in connection with the provision of telecommunications services and the company's business was approved by the Commission in Docket No. 98-0321.

All of the membership interests of Gallatin River Communications L.L.C. are owned by Gallatin River Holdings, L.L.C. Madison River LTD Funding Corp., which is the Borrower in the loan transactions that I will be discussing with the Rural Telephone Finance Cooperative, is an intermediary corporation between Gallatin River Holdings, L.L.C. and Madison River Telephone Company, L.L.C., the ultimate holding company parent of Gallatin River Communications L.L.C.

Attachment "1" to my testimony is a corporate structure chart entitled Madison River Entity Map, which shows not only the companies I have identified but the entire family of Madison River's companies.

- Q. Please give an overview of the refinancing activity that is occurring with the Rural Telephone Finance Cooperative.
- A. Gallatin River Communications L.L.C. and other Madison River entities have existing loans and secured line of credit arrangements with the Rural Telephone Finance Cooperative. Madison River's family of companies has grown over time as has the lending relationship with the Rural Telephone Finance Cooperative. In reviewing those arrangements and in discussions with the Rural Telephone Finance Cooperative, we determined that the Madison River family of companies, and the individual companies including Gallatin River Communications L.L.C., could obtain more attractive interest rates, income tax savings and administrative efficiencies by reorganizing the lending

arrangement so that one Madison River entity; i.e., Madison River LTD Funding Corp., is the sole Borrower from the Rural Telephone Finance Cooperative.

Q. Does Gallatin River Communications L.L.C. have an existing loan from the Rural Telephone Finance Cooperative and does it presently have available to it a secured line of credit from the Rural Telephone Finance Cooperative?

A. Yes, that is correct. Pursuant to the Authority granted in Docket No. 98-0321, Gallatin River Communications L.L.C. obtained a loan in the principal amount of \$123,192,631 and a line of credit in the principal amount of \$10,000,000 from the Rural Telephone Finance Cooperative pursuant to a Promissory Note, Loan Agreement, and Secured Revolving Line of Credit Agreement, each dated October 30, 1998 (collectively, the "1998 Loan Documents").

Pursuant to the 1998 Loan Documents, Gallatin River Communications L.L.C. granted mortgages on real estate that it owned in Illinois and a blanket security interest covering substantially all of the personal property of the company in favor of the Rural Telephone Finance Cooperative.

Q. Under the proposed transaction with the Rural Telephone Finance Cooperative, will Gallatin River Communications L.L.C.'s existing loan obligation be paid off and retired?

A. Yes, that is correct. All of the borrowing will be done at the Madison River LTD Funding Corp. level; and as a result, Gallatin River Communications L.L.C. will no

longer have a direct obligation as a Borrower to the Rural Telephone Finance Cooperative.

Q. Under the reorganized lending arrangements with the Rural Telephone Finance Cooperative, what are Gallatin River Communications L.L.C.'s obligations?

A. Pursuant to the terms of the new Loan Agreement between Madison River LTD Funding Corp. and the Rural Telephone Finance Cooperative, Madison River LTD Funding Corp. is obligated to provide a Secured Guaranty by Gallatin River Communications L.L.C. and to provide a Modification To Mortgage and Security Agreement, which reflects the new relationship in which Madison River LTD Funding Corp. would be the Borrower and Gallatin River Communications L.L.C. would be a Guarantor.

Q. What approvals are sought by the Petition filed in this docket?

A. In light of the reorganized arrangements with the Rural Telephone Finance Cooperative, we are seeking approval for Gallatin River to enter into a Secured Guaranty. Even though there are present Mortgages and Security Agreements granted by Gallatin River Communications L.L.C. in favor of the Rural Telephone Finance Cooperative, we are also seeking approval for Gallatin River to enter into the Modification To Mortgage and Security Agreement reflecting the reorganized lending arrangement. It is our understanding that these are the approvals which are required under the provisions of Section 7-102 of The Public Utilities Act.

Q. Have the terms of the loan documents been agreed upon by Madison River LTD Funding Corp., Gallatin River Communications L.L.C., the other Madison River companies and the Rural Telephone Finance Cooperative?

A. Yes. On December 29, 2000, we agreed with the Rural Telephone Finance Cooperative concerning the terms of the reorganized loan arrangement and the terms of the various loan documents. We are required to furnish the Rural Telephone Finance Cooperative with evidence that we have obtained all necessary regulatory approvals.

Q. Are you attaching to your testimony the documents that are relevant to the reorganized loan as they relate to the approvals sought in this proceeding?

A. Yes, I am.

Q. Please identify Attachment "2" to your testimony.

A. Attachment "2" is a copy of the Loan Agreement between Madison River LTD Funding Corp. and the Rural Telephone Finance Cooperative. Under the reorganized loan arrangement with Madison River LTD Funding Corp. being the sole Borrower, the total loan commitment is in the amount of \$506,753,501. This amount was determined by summing the individual loan commitments of Gallatin River Communications L.L.C. and its four sister operating companies' loan commitments. Each of the telephone companies will then guaranty an amount equal to its previous loan commitment. As set forth in the Loan Agreement, Madison River LTD Funding Corp. will be refinancing its subsidiary

companies' debt and purchasing additional Subordinated Capital Certificates from the Rural Telephone Finance Cooperative with the loan proceeds.

Q. Has Gallatin River Communications L.L.C. previously had extended to it a line of credit from the Rural Telephone Finance Cooperative?

A. Yes. As I previously indicated, Gallatin River Communications L.L.C. has had a \$10,000,000 line of credit arrangement with the Rural Telephone Finance Cooperative. That line of credit and the reorganized structure are now being incorporated into a Secured Revolving Line of Credit Agreement extended to Madison River LTD Funding Corp. by the Rural Telephone Finance Cooperative in the amount of \$31,000,000, which is the sum of the lines of credit held individually by each of the telephone companies. Similar to the arrangements for the loan agreements, each telephone company will then guaranty an amount equal to its previous line of credit. Gallatin's line of credit guaranty will be limited to the advances made for the benefit of Gallatin River Communications L.L.C.

Q. Please identify Attachment "3" to your testimony.

A. Attachment "3" is a copy of the Rural Telephone Finance Cooperative's Secured Revolving Line of Credit Agreement with Madison River LTD Funding Corp., which I just referenced.

Q. Please identify Attachment "4" to your testimony.

A. Attachment "4" is the Secured Promissory Note of Madison River LTD Funding Corp. in favor of the Rural Telephone Finance Cooperative that is associated with the prior loan to Gallatin River Communications L.L.C. The amount of the Secured Promissory Note is \$124,054,065. The increased amount is associated with the increased Subordinated Capital Certificate being obtained by Madison River LTD Funding Corp. from the Rural Telephone Finance Cooperative.

Q. Please identify Attachment "5" to your testimony.

A. Attachment "5" is the Secured Guaranty between Gallatin River Communications L.L.C. and the Rural Telephone Finance Cooperative, the granting of which is being sought by the approvals requested in this proceeding. Pursuant to the terms of the Secured Guaranty, Gallatin River Communications L.L.C. is guaranteeing payment up to \$123,192,631 of the total amount of the Promissory Note, which is Attachment "4". The amount of the Secured Guaranty is equal to the original principal amount of the loan previously approved by the Commission in Docket No. 98-0321. The guaranty also covers up to \$10,000,000 of amounts advanced under the line of credit arrangement, with *that amount being equal to the amount of the line of credit that the Rural Telephone Finance Cooperative had previously extended to Gallatin River Communications L.L.C.* and which was approved by the Commission in Docket No. 98-0321. The Secured Guaranty is also to be executed by Gallatin River Holdings, L.L.C. as the owner of all of the membership interests in Gallatin River Communications L.L.C.

As I previously indicated in my testimony, Gallatin River Communications L.L.C.'s \$10,000,000 line of credit guaranty will be limited to only support advances under the line of credit that are made for the benefit of Gallatin River Communications L.L.C. In Attachment "5", this is reflected and set forth in the last sentence of paragraph 1, which appears at the top of page 2.

Q. Please identify Attachment "6".

A. Attachment "6" is the Modification To Mortgage and Security Agreement by and between Gallatin River Communications L.L.C. and the Rural Telephone Finance Cooperative for which approval is sought in this proceeding. As I previously indicated, Mortgages and Security Agreements were granted by Gallatin River Communications L.L.C. to the Rural Telephone Finance Cooperative in connection with the previously approved loan. This Modification reflects the reorganized loan structure.

Q. How will Gallatin River Communications L.L.C. and the public interests benefit by the granting of the approvals being sought?

A. Gallatin River Communications L.L.C. will benefit from the reorganized loan arrangement and the approvals sought by this Petition, which will, in turn, benefit the public interest. The new lending arrangement with the Rural Telephone Finance Cooperative will result in a reduction of the effective interest rate associated with the prior loan to Gallatin River Communications L.L.C. in the amount of 30 basis points. The Madison River family of companies will obtain income tax benefits and savings as a

result of the transaction, which, in turn, benefits Gallatin River Communications L.L.C. and their customers. The centralizing of the loan obligation at the Madison River LTD Funding Corp. level will also result in a reduction in Gallatin River Communications L.L.C.'s reporting requirements to the Rural Telephone Finance Cooperative and will, in turn, lessen the costs associated with those requirements.

Q. Can you describe how a reduction in interest rate at a holding company, combined with lower income taxes and administrative savings, will benefit Gallatin River Communications L.L.C.'s subscribers?

A. Yes. The reduction in administrative costs associated with the loan, which includes elimination of certain staff-generated financial reports and an individual financial audit, is a direct savings to Illinois subscribers. The reduction in interest cost reduces the cost of capital by reducing the debt component. Further, the reduced interest costs, reduced income taxes and administrative savings at the holding company level serve to make the entire organization financially stronger, resulting in lower risk and an associated incrementally lower cost of the equity portion of capital. Gallatin River Communications L.L.C.'s total balance sheet, combining total liabilities and equity, is about \$246,000,000. Therefore, guaranteeing the combination of the loan and the secured line of credit in the amount of \$133,192,631 will result in a total potential debt structure of less than 55% of total capital. In my opinion, this is a very strong balance sheet.

Q. How would you characterize Gallatin River Communications L.L.C.'s financial and operating performance since it began operations over two years ago?

A. Gallatin River Communications L.L.C. has had a successful two and a half years of operations. It has met all its financial obligations and provided exceptional customer service. It has maintained a customer service and management force in Illinois, which we consider to be an important presence for improved customer service.

Q. Do you have any additional comments?

A. It is in Gallatin River Communications L.L.C.'s and the entire Madison River family of companies' best interests to complete the loan reorganization with the Rural Telephone Finance Cooperative at the earliest possible time. In addition to the other benefits described earlier, Gallatin River is actually in an improved position on its debt. Rather than being directly encumbered for the RTFC debt, it is now indirectly encumbered and yet maintains the same limits to its debt obligation. Not only is this change an improvement for the company, it is also good for the customer. We would ask that the Commission grant all necessary approvals expeditiously.

Q. Does that complete your testimony?

A. Yes, it does.